



DEPARTMENT OF THE NAVY  
OFFICE OF THE SECRETARY  
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WASHINGTON DC 20350-1000

SECNAVINST 5200.44  
ASN(RD&A)  
29 Mar 2019

SECNAV INSTRUCTION 5200.44

From: Secretary of the Navy

Subj: OPERATING MATERIALS AND SUPPLIES - ACCOUNTABILITY AND  
MANAGEMENT

Ref: See enclosure (1)

Encl: (1) References  
(2) Responsibilities  
(3) Exemptions  
(4) Authorization to Use the Purchases Method of  
Accounting  
(5) Inventory Requirements  
(6) OM&S Physical Management & Financial Reporting  
Requirements  
(7) Glossary and Terms  
(8) List of Acronyms

1. Purpose. Under the authority of references (a) and (b),  
this instruction:

a. Establishes the overarching accountability and  
management policy for Operating Materials and Supplies (OM&S);

b. Assigns roles and responsibilities within the Department  
of the Navy (DON) for all DON OM&S (see enclosure (2));

c. Aligns DON policies for OM&S with Federal regulations,  
Federal accounting standards and Department of Defense (DoD)  
policies for property accountability and management;

d. Establishes a governance structure for financial and  
physical accountability and management of OM&S to ensure maximum  
visibility, management and traceability of OM&S;

e. Provides a framework for financial and physical  
accountability and management of OM&S to support warfighter  
readiness, financial reporting and sustained auditability  
requirements (see enclosures (3) through (6));

f. Establishes a standard taxonomy for OM&S in enclosure (7) and provides a list of OM&S related acronyms in enclosure (8).

2. Cancellation. SECNAVINST 4440.33A.

3. Responsibilities. See enclosure (2).

4. Applicability

a. This instruction applies to the Office of the Secretary of the Navy (SECNAV), the Chief of Naval Operations (CNO), the Commandant of the Marine Corps (CMC) and all U.S. Navy and U.S. Marine Corps entities within the DON.

b. This instruction refers to all OM&S to which the government holds title, regardless of who has custody. OM&S consists of tangible personal property to be consumed in normal operations. A detailed definition and partial list of types of material both held as and specifically excluded from OM&S can be found in enclosure (7).

(1) Per reference (c), OM&S shall be categorized as:

(a) Material Held for Use (MHFU);

(b) Material Held in Reserve for Future Use (MHFFU);

(c) Material Held as Excess, Obsolete and Unserviceable (MEOU);

(d) Material Held for Repair or Remanufacture (MHFR);

(e) OM&S in Development (OID)

(2) OM&S whose value has been transferred to the Construction in Progress (CIP) account, is still in government custody but has not been installed or consumed into the end item shall be physically managed per this instruction. Because CIP and OM&S represent unique financial reporting treatments, material can be financially designated as one or the other, but never both.

c. Exemptions. See enclosure (3).

5. Policy. This policy governs the accountability and management of OM&S. It is SECNAV policy to:

a. Execute financial management and physical management of OM&S, per references (b) through (p);

b. Require that OM&S be valued per the requirements of references (c), (d) and (e) as directed by Assistant Secretary of the Navy (Financial Management and Comptroller (ASN(FM&C)));

c. Require that the Consumption Method of Accounting shall be applied for all OM&S, per paragraph 040301.A of volume 4 of reference (c), unless written authorization to use the Purchases Method of Accounting is granted by the Office of ASN(FM&C) (OASN(FM&C)) as required in enclosure (4). OASN(FM&C) will ensure a DON-wide perspective is applied to all authorizations to use the Purchases Method of Accounting;

d. Require that Service-level policies, plans and strategies for procurement and management of OM&S are in place and reviewed at least every five years. Service policies and strategies shall be in place not more than 12 months following signature of this instruction;

e. Efficiently manage spending to satisfy requirements across a program's lifecycle while balancing risk and operational readiness;

f. Minimize costs associated with asset management through improved traceability, accountability and visibility;

g. Maximize OM&S visibility and accountability to right-size the overall inventory and to support audit readiness. Overriding security considerations may drive visibility to be limited within need to know boundaries;

h. Maximize the use of information technology and automated information systems, e.g., barcode scanners and Item Unique Identification (IUID) and utilize only designated automated information systems with standard, common processes for procurement and management of OM&S. IUID shall be used for OM&S asset visibility, management and traceability for qualifying items, per references (f) through (h);

i. Track all OM&S in a Government-approved Accountable Property System of Record (APSR) with 100 percent accountability. Procure all OM&S through established DoD or DON processes, ensuring it is properly categorized and tracked in an APSR from procurement through consumption or disposal. Third party property management or accountability systems, such as custodial systems or contractor property management systems, shall not supersede or replace the government's APSR or the accountable property records maintained by DON;

j. Conduct physical inventories of OM&S, per enclosure (5) of this instruction;

k. Require that all organizations that own OM&S report their OM&S as delineated in enclosure (6). Compliance with this instruction and the adequacy of metrics collected shall be assessed during periodic data calls and subsequent audits.

## 6. Records Management

a. Records created as a result of this instruction, regardless of format or media, must be maintained and dispositioned according to the records disposition schedules found on the Directives and Records Management Division (DRMD) portal page:  
<https://portal.secnav.navy.mil/orgs/DUSNM/DONAA/DRM/SitePages/Home.aspx>.

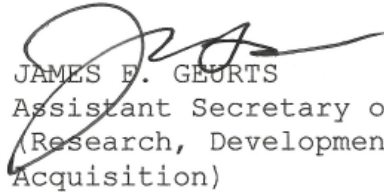
b. For questions concerning the management of records related to this instruction or the records disposition schedules, please contact your local Records Manager or the DRMD program office.

## 7. Forms and Reports

a. SECNAV 5200/5 (3-19), Operating Materials and Supplies Physical Management Report listed in enclosure (6), paragraphs 3.a(1) and 3.a(1)(b) can be obtained from Navy Forms Online at:  
<https://www.secnav.navy.mil/doni/default.aspx>.

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b. The reporting requirements contained in enclosures (2) and (6) are exempt from reports control, per SECNAV M-5214.1 of December 2005, Part IV paragraph 7g.



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**REFERENCES**

- (a) SECNAVINST 5430.7R, CH-1
- (b) DoD Instruction 4140.01 of 14 September 2017
- (c) DoD 7000.14-R of June 2017, DoD Financial Management Regulations, as amended
- (d) Statement of Federal Financial Accounting Standards 3, Accounting for Inventory and Related Property of 27 October 1993 as amended
- (e) Statement of Federal Financial Accounting Standards 48, Opening Balances for Inventory, Operating Materials and Supplies and Stockpile Materials of 27 January 2016
- (f) DoD Instruction 4151.19 of 19 January 2014
- (g) DoD Instruction 8320.04 of 3 September 2015
- (h) SECNAVINST 4440.34
- (i) Office of Management and Budget Circular A-123, Management's Responsibility for Enterprise Risk Management of 15 July 2016 as amended
- (j) Office of Management and Budget Circular A-136, Financial Reporting Requirements of 30 July 2018 as amended
- (k) SECNAVINST 5200.35F
- (l) SECNAVINST 5200.42
- (m) DoD Instruction 4161.02 27 April 2012
- (n) Federal Acquisition Regulation, current edition
- (o) Defense Federal Acquisition Regulation Supplement, current edition
- (p) SECNAVINST 5200.43
- (q) DoD Instruction 5000.64 of 27 April 2017

## RESPONSIBILITIES

1. Assistant Secretary of the Navy (Research Development and Acquisition) (ASN(RD&A)) shall:

a. Ensure adequate policies are in place and provide full oversight for OM&S accountability and management within the DON;

b. Designate a representative to coordinate with OASN(FM&C) to adjudicate any OM&S-specific issues unresolved at the Service level and serve as the DON physical accountability representative on all OM&S-related matters;

c. Designate a representative to coordinate with OASN(FM&C) to establish and co-lead a working group comprised of OM&S subject matter experts to address issues and assist with developing Service-level OM&S policies and strategies. This working group will convene as required to address OM&S issues;

d. Designate a representative to develop reporting requirements and metrics with goals that measure efficient physical management of OM&S;

e. Designate a representative to analyze and report results of OM&S data calls submitted, per the reporting requirements identified in enclosure (6). Evaluate data and provide feedback to CNO/CMC recommending changes to policies and/or strategies as appropriate;

f. Designate a representative to coordinate with OASN(FM&C) to adjudicate and respond in writing to requests for exemption from all or any part of this policy as described in enclosure (3). Review approved exemptions at least annually and when governing policies or relevant legislation are changed to ensure continued applicability;

g. Designate a representative to coordinate with OASN(FM&C) to review, update and publish changes to this policy not less than every five years and when changes to legislation, DoD guidance or audit findings necessitate changes to this policy.

2. ASN(FM&C) shall:

a. Provide DON policy and guidance for accounting and financial management of OM&S. Accounting and financial management includes, but is not limited to recording, valuing, reporting and reporting disposal of OM&S;

b. Designate a representative to coordinate with the Office of the Assistant Secretary of the Navy (Research Development & Acquisition) (OASN(RD&A)) to adjudicate any OM&S-specific issues unresolved at the Service level and serve as the DON financial representative on all OM&S-related matters;

c. Designate a representative to coordinate with OASN(RD&A) to establish and co-lead a working group comprised of OM&S subject matter experts to address issues and assist with developing Service-level OM&S policies and strategies. This working group will convene as required to address OM&S issues;

d. Designate a representative to develop reporting requirements and metrics with specific goals that measure efficient financial management of OM&S;

e. Designate a representative to analyze and report results of OM&S data calls submitted per the reporting requirements identified in enclosure (6). Evaluate data and provide feedback to CNO/CMC recommending changes to policies and/or strategies as appropriate;

f. Designate a representative to coordinate with OASN(RD&A) to review, update and publish changes to this policy not less than every five years and when changes to legislation, DoD guidance or audit findings drive change to this policy;

g. Designate a representative to coordinate with the CNO and the CMC to ensure and periodically test that proper internal controls for OM&S management required in references (i), (j), and (k) are being met;

h. Designate a representative to coordinate with the Defense Finance and Accounting Service to ensure OM&S is properly reported on the DON Financial Statements as required by reference (j);



i. Ensure Service and subordinate policies require that all OM&S is managed using the Consumption Method of Accounting unless specific authorization to use the Purchases Method of Accounting is granted in writing;

j. Designate a representative to coordinate with OASN(RD&A) to adjudicate and respond in writing to all requests for exemption from all or any part of this policy as described in enclosure (3). Review existing, approved exemptions at least annually and when governing policies or relevant legislation are changed to ensure continued applicability;

k. Designate a representative to evaluate and approve or deny in writing all requests to utilize the Purchases Method of Accounting in lieu of the Consumption Method of Accounting for OM&S, per enclosure (4);

l. Designate a representative to approve Accountable Property Systems of Record (APSRs) for the DON and maintain a list of approved government APSRs.

3. CNO and CMC shall:

a. Ensure Service policies that emphasize visibility, accountability and minimize OM&S while balancing risk and operational readiness are in place and reviewed at least every five years. Initial Service policies and strategies shall be in place not more than 12 months following signature of this instruction;

b. Appoint in writing a Service-level Accountable Property Officer (APO), per reference (1);

c. Ensure strategies with clear, definite timelines to implement DON and Service policies are in place and reviewed annually;

d. Ensure Service and subordinate policies require that all OM&S are managed using the Consumption Method of Accounting unless authorization to use the Purchases Method of Accounting is granted in writing by OASN(FM&C);

e. Develop Service-unique reporting requirements and metrics with specific goals that measure efficient physical and financial management of OM&S;

f. Initiate Service-level OM&S data calls, analyze and report results submitted, per the reporting requirements identified in enclosure (6);

g. Consolidate subordinate responses to ASN(RD&A) and ASN(FM&C) data calls and forward reports to ASN(RD&A) and ASN(FM&C) as required by enclosure (6). Analyze subordinate responses and make adjustments to Service-level policy and strategy based on that analysis. Regular quarterly financial reports required by references (c) and (j) shall be submitted by BSOs directly to OASN(FM&C) with parallel information copies to Service leads when required;

h. Designate which approved government APSRs are authorized for financial and physical management of OM&S within their respective Service;

i. Ensure resource sponsors resource requirements to enable fully accountable management of OM&S as defined in enclosure (7);

j. Establish Service-wide standard taxonomy and business practices for procuring, managing, reutilizing and reporting OM&S;

k. Develop guidelines for acquiring and retaining donated and reclaimed OM&S;

l. Enforce adherence to DoD and DON policies and regulations with respect to procuring, managing, accounting for and reporting OM&S, including but not limited to, unique item traceability requirements, material in the hands of contractors and material in the hands of the operating forces;

m. Ensure PEOs, Program Managers and procuring officials maximize reutilization and procurement efficiencies by reviewing enterprise-wide availability of existing or cataloged material and like items before procuring OM&S;

n. Ensure all activities under Service cognizance that own OM&S review all OM&S categorized as MHFU not less than annually to validate continued intent to use the material in the next 24 months. Material for which the intended use has moved beyond 24 months shall be reclassified as MHFFU or disposed as appropriate;

o. Ensure all activities under Service cognizance that own OM&S review all OM&S categorized as MHFFU not less than annually to validate continued need. Material designated as MHFFU will meet the criteria set forth in paragraph 46 of reference (d);

p. Support periodic testing to ensure proper internal controls for OM&S management required in reference (i) and (k) are being met;

q. Support input to the financial management reporting processes as required in reference (j);

r. Ensure records and accountability for all serially managed OM&S of any value in the custody of contractors are maintained, per references (f), (m), (n), (o) and (p).

4. Budget Submitting Offices (BSOs) shall:

a. Appoint in writing a Command Property Officer and APOs as appropriate, per reference (l);

b. Develop BSO reporting requirements and metrics with specific goals that measure efficient physical and financial management of OM&S. These metrics shall include, but not be limited to, performance metrics used during leadership reviews of Program Managers;

c. Ensure the Consumption Method of Accounting is used for all OM&S unless a specific authorization to use the Purchases Method of Accounting is granted in writing by OASN(FM&C);

d. Establish and maintain controls to ensure every OM&S transaction is documented in the designated APSR to support auditability, e.g., all material must be received into and issued from the APSR;

e. Maintain accountable records in a government approved APSR for all serially managed OM&S furnished to a contractor, regardless of acquisition value. Third party property management or accountability systems, such as custodial systems, shall not supersede or replace the APSR requirement for serially managed OM&S;

f. Financially expense and retire accountable records from the APSR for non-serially managed OM&S provided to support repair or production contracts upon report of receipt by the contractor, per reference (p). As appropriate, the OM&S shall be capitalized into a CIP or OID account. The contractor shall track and maintain records for non-serially managed OM&S provided to support repair or production contracts, per section 52.245-1 of reference (n). Remaining balances shall be reconciled with contractor consumption records as part of the contract close out process or when the non-serially managed OM&S is determined to be excess or no longer required for performance on the contract;

g. Require Program Managers to review enterprise-wide availability of existing or cataloged material and like items before procuring OM&S to maximize reutilization. Program Managers shall ensure established DoD or DON procurement hierarchies are followed for all OM&S procurements;

h. Support periodic testing to ensure proper internal controls for OM&S management required by references (i) and (k) are being met;

i. Coordinate input to the financial management reporting processes as required by reference (j);

j. Consolidate subordinate responses to ASN(RD&A), ASN(FM&C) or Service data calls and forward to the CNO or the CMC, per reporting requirements identified in enclosure (6). Regular quarterly financial reports required by references (c) and (j) shall be submitted directly to OASN(FM&C) with parallel information copies to Service leads when required;

k. Evaluate semiannual summary reports and certification memorandums, per enclosure (6), that are sent to ASN(FM&C) and ASN(RD&A) and recommend adjustments to strategies and policies to Service leads as appropriate;

l. Establish common business practices between PEOs and across program offices;

m. Ensure all activities under their cognizance that own OM&S review all OM&S categorized as MHFU not less than annually to validate continued intent to use the material in the next 24 months. Material for which the intended use has moved beyond 24 months shall be reclassified as MHFFU or disposed as appropriate;

n. Ensure all activities under their cognizance that own OM&S review all OM&S categorized as MHFFU not less than annually to validate continued need. Material designated as MHFFU will meet the criteria set forth in paragraph 46 of reference (d).

5. PEOs shall:

a. Appoint in writing APOs, per reference (1);

b. Ensure OM&S is procured, managed, accounted for and reported as required in DoD and DON policies and regulations, including but not limited to, procurement processes, unique item traceability requirements, material in the hands of contractors and material in the hands of the operating forces;

c. Consolidate Program Manager responses to data calls and the reporting requirements of enclosure (6) and forward to SYSCOM and/or BSO;

d. Establish PEO specific goals and metrics that measure efficient, physical and financial management of OM&S, including but not limited to, performance metrics used during leadership reviews of Program Managers;

e. Require Program Managers to review enterprise-wide availability of existing or cataloged material and like items before procuring OM&S to maximize reutilization and procurement efficiency. Program Managers shall ensure established DoD or DON procurement hierarchies are followed for all OM&S procurements;

f. Support common business practices across Program Offices;

g. Ensure all activities under their cognizance that own OM&S review all OM&S categorized as MHFU not less than annually to validate continued intent to use the material in the next 24 months. Material for which the intended use has moved beyond 24 months shall be reclassified as MHFFU or disposed as appropriate;

h. Ensure all activities under their cognizance that own OM&S review all OM&S categorized as MHFFU not less than annually to validate continued need. Material designated as MHFFU will meet the criteria set forth in paragraph 46 of reference (d);

i. Support periodic testing to ensure proper internal controls for OM&S management required by references (i) and (k) are being met;

j. Support input to the financial management reporting processes required by reference (j).

6. APOs shall:

a. Be appointed in writing by activity Commanders, Commanding Officers or Officers in Charge at all levels of accountability per reference (b). The responsibilities of the APO are inherently governmental and therefore not assignable to a contractor or other non-government entity. However, contractors may perform certain functions in support of the APO. These functions must be mandatory requirements, requiring no personal judgment or discretion on the part of the contractor. The definition of an inherently governmental function is a legal determination, and APO's should seek advice from their legal advisor prior to assigning work to support contractors;

b. Ensure proper management and accountability of OM&S at the activity level, regardless of echelon, and at shared service providers if applicable;

c. Establish and maintain the organization's accountable property and financial records for all OM&S, regardless of whether the property is in the individual's or Command's immediate control and/or possession. This includes the requirement for maintaining a complete trail of all transactions, suitable for audit, and the ability to implement and adhere to associated internal controls;

d. Develop physical inventory plans detailing the approach for ensuring 100 percent of all OM&S is physically sighted and inventoried annually. At minimum, inventory accuracy and validity shall be maintained at 98 percent with a goal of 100 percent accuracy and validity;

e. Develop and implement corrective action plans when inventory accuracy falls below 98 percent or inventory frequency requirements are not maintained. Corrective action plans shall include a determination of root cause, planned actions to correct specific deficiencies and underlying systemic problems and an estimate of when the corrective action is expected to be complete;

f. Coordinate physical inventories per the published physical inventory plan and to meet the requirements of this policy. Certify that all OM&S is properly inventoried;

g. Designate custodial areas within an accountable area and appoint property custodians in writing for each custodial area designated; and

h. Conduct a financial liability investigation of property loss inquiry when designated by the Approving Authority or assist the individual designated to conduct the inquiry. Serve as Accountable Officer, per chapter 7 of volume 12 of reference (c).

i. Upon completion of an investigation of property loss, or during the investigation if the actual property loss is not in question, ensure financial records are adjusted, per chapter 7 of volume 12 of reference (c).

### EXEMPTIONS

1. Requests for relief from all or any part of this policy shall be submitted in writing, through administrative chains of command to OASN(RD&A) and OASN(FM&C) for joint adjudication. Authorization to use the Purchases Method of Accounting shall be addressed as described in enclosure (4). Exemptions granted under this policy do not apply to the requirements of any other regulation or policy, including requirements related to financial reporting and auditability.

a. Exemptions to this policy shall be considered if any one of the following conditions exist:

(1) The requestor is exempted by law;

(2) The requestor is subject to another SECNAV or higher level policy that provides equivalent guidance on managing and reporting OM&S through the chain of command;

(3) Reporting as prescribed in enclosure (6) will compromise security requirements levied on classified material or classified programs.

b. Requests shall be signed by a General Officer, Flag Officer or member of the Senior Executive Service (GO/FO/SES) at the Echelon III level with written endorsements signed at the Echelons I and II levels prior to submitting to ASN(RD&A) and ASN(FM&C).

c. Once approved, exemptions remain in effect until rescinded in writing jointly by ASN(RD&A) and ASN(FM&C) or higher authority.

d. Reports shall be submitted as required until written approval of exemption is provided by ASN(RD&A) and ASN(FM&C).

e. Requests for exemption from reporting shall be submitted at least 45 days prior to the scheduled start date of the pertinent reporting cycle, e.g., exemption requested for the physical management reporting submitted 45 days before 15 February, if approved, will exempt requestor from second quarter and subsequent reporting.



f. Exemption requests shall specify from which sections of the policy exemption is desired, e.g., shared visibility, physical management reporting, entire policy, etc., citing specific paragraph number(s) where appropriate and a detailed justification for the request.

2. ASN(RD&A) and ASN(FM&C) will review existing, approved exemptions at least annually and when technologies, governing policies or relevant legislation are changed to ensure continued applicability.

**AUTHORIZATION TO USE THE PURCHASES METHOD OF ACCOUNTING**

1. The Consumption Method of Accounting shall be applied for all OM&S unless written authorization to use the Purchases Method of Accounting is granted by OASN(FM&C) as described in this enclosure. Once approved, authorizations remain in effect until rescinded in writing by OASN(FM&C) or higher authority. OASN(FM&C) will ensure a DON-wide perspective is applied to all authorizations to use the Purchases Method of Accounting.
2. Authorization to use the Purchases Method of Accounting will only be considered if one of the following conditions exists:
  - a. OM&S are not significant amounts;
  - b. OM&S are in the hands of the end user;
  - c. If it is not cost beneficial to apply the Consumption Method of Accounting.
3. Requests to use the Purchases Method of Accounting shall be submitted in writing, through administrative chains of command to OASN(FM&C) for adjudication. Requests shall be signed by a GO/FO/SES at the Echelon III level with written endorsement signed at the Echelons I and II levels prior to submitting to OASN(FM&C). Authorizations granted under this policy do not apply to the requirements of any other regulation or policy, especially requirements related to financial reporting and auditability.
  - a. Requests shall provide detailed justification for using the Purchases Method of Accounting, including which of the three conditions from paragraph 2 of this enclosure apply. Justifications shall include an estimate of the total number of line items and total value of OM&S, calculated at Moving Average Cost (MAC) for which the Purchases Method of Accounting is being sought, the basis for those estimates and a comprehensive list of management controls in place to ensure accountability of material. Additionally, if authorization to use the Purchases Method of Accounting is being requested citing paragraph 2c of this enclosure, a cost benefit analysis outlining the estimated cost avoidance if the Purchases Method of Accounting is used shall be included;

b. Until written authorization to use the Purchases Method of Accounting is provided by ASN(FM&C), the Consumption Method of Accounting shall be used and applicable reports shall be submitted as required by this instruction;

c. Requests shall be submitted not later than 45 days prior to the scheduled start date of the pertinent reporting cycle, e.g., requests submitted 45 days before 15 February, if approved, will exempt requestor from second quarter and subsequent reporting;

d. OASN(FM&C) will review existing, approved authorizations at least every three years and when technologies, governing policies or relevant legislation are changed to ensure continued applicability.

### INVENTORY REQUIREMENTS

1. Conducting physical inventories is critical to efficient control of property. Physical inventories serve as the most effective test of transaction accuracy and internal controls in property management. Physical inventories ensure actual on-hand balances are accurately represented in accountable records, thus ensuring accurate financial reporting. Physical inventories also provide a vehicle to ensure material is correctly identified, properly stowed and in apparent good condition, without deterioration, breakage or improper packaging.
2. An effective inventory process is dependent on deliberate planning, regular scheduling and consistent execution. Commanders, commanding officers and officers in charge shall publish annual inventory plans for OM&S under their purview that include how the OM&S population is segmented for inventory, which inventory methods are used, e.g. wall to wall or cyclic, and anticipated completion timelines for each inventory segment.
3. All OM&S shall be inventoried annually using either wall-to-wall or cyclic methods that result in 100 percent of OM&S to be physically sighted each year and shall maintain at least 98 percent accuracy
4. Non-serially managed OM&S provided to a contractor to support repair or production contracts shall be financially expensed and the accountable record retired upon report of receipt by the contractor and is therefore exempt from physical inventory requirements by the government. The contractor shall track and maintain records for non-serially managed OM&S provided to support repair or production contracts, per section 52.245-1 of reference (n). Remaining balances shall be reconciled with contractor consumption records as part of the contract close out process or when the non-serially managed OM&S is determined to be excess or no longer required for performance on the contract.
5. Location audits are a critical step to ensuring accurate records. Location audits, also known as floor-to-book inventories, shall be conducted in conjunction with every physical inventory performed.

a. Activities shall maintain at least 98 percent accuracy for location audits. Actual accuracy shall be recorded, tracked over a five-year period and analyzed at the local level to identify trends and determine corrective actions.

b. Location audit samples shall be equal to 10 percent of the physical inventory or book-to-floor sample size, e.g. if the OM&S population is 2,500 items, 250 items shall be randomly selected from the entire population for location audit. To conduct the location audit, OM&S shall be randomly selected during the conduct of a cyclic or wall-to-wall inventory and compared to the Accountable Property System of Record (APSR) to validate completeness of the APSR records.

c. When selecting OM&S for location audit, ensure adequate identifying information for the material, e.g., National Stock Number, nomenclature, unique identifier, etc., and the location in which it was found are recorded and compared to the APSR. It is not necessary to count, record or reconcile the quantity on hand during a location survey.

d. When the results of the location audit are compared to the APSR:

(1) If the material is listed in the APSR in the location in which it was found, no further action is required;

(2) If the material is listed in the APSR, but not in the location in which it was found, a full physical inventory of that item shall be conducted to validate on hand quantity;

(3) If the material is not listed in the APSR in any location, appropriate research shall be conducted to identify the item, determine need and a decision to either retain or dispose the material shall be made;

(4) Discrepancies identified during location audits shall be documented per paragraph 6 of this enclosure and reconciled with actual on-hand balances per paragraph 7 of this enclosure.

6. Physical inventory and location audit documentation shall include the nomenclature, national stock number (if available), part number and manufacturer's CAGE code (if available),

location, unique identifier (if available) and condition for each item inventoried. Required documentation, in either electronic or hard copy shall be retained for no less than six years and be provided upon request for audit or inspection. Required documentation includes:

- a. Signed physical inventory plans;
  - b. Completed inventory sheets which shall include the names and signatures of the individual conducting the inventory and the individual reviewing the inventory results for accuracy and a detailed listing that summarizes all adjustments. Signatures may be either original or electronic equivalent,
  - c. Applicable documentation supporting any adjustments made to the OM&S records including, but not limited to DD Form 200 Financial Liability Investigation of Property Loss as required by reference (c) or other applicable DoD, Service or local instruction. Inventory adjustment documentation shall be filed with the inventory documentation and also electronically associated with the adjusted records in the APSR.
7. OM&S records shall be adjusted to reflect gains or losses identified during inventory within 72 hours of pre-adjustment research being completed. Gains and losses resulting from inventory shall be financially recorded as other gains or other losses as appropriate and reviewed for accuracy by someone other than the individual conducting the inventory. Adjustments shall be signed by both the individual posting the adjustment and the reviewer.
8. For OM&S that is stored in a sealed container, e.g. as part of a deployment or prepositioned set, the inventory requirement may be fulfilled by verifying the seal remains intact on the container. If the seal is broken, 100 percent of OM&S within the container must be physically inventoried and a list of enclosed OM&S must be either physically attached to or electronically associated with the container prior to resealing.

**OM&S PHYSICAL MANAGEMENT & FINANCIAL REPORTING REQUIREMENTS**

1. All organizations that own OM&S are required to report their OM&S under this instruction unless specifically exempted, per paragraph 4.c of the policy and enclosure (3).

2. Because CIP and OM&S represent unique financial reporting treatments, material can be financially designated as one or the other, but never both in concurrent financial records. Material that qualifies as OM&S that is held without specific assignment to a new end item or is designated for installation in existing end items as a repair, upgrade or modification shall be classified, managed and financially reported as OM&S.

Undesignated OM&S subsequently identified for installation in or construction of a new end item shall be financially transferred from the OM&S account into the CIP account.

3. All organizations that own OM&S shall be fully accountable for all reported balances (both quantity and value) of all OM&S owned. All values shall be calculated at MAC, except MEOU, which shall be calculated at Net Realizable Value (NRV), per paragraph 040202 of reference (c). If system limitations prevent valuing OM&S at MAC, any method approximating historical cost, e.g., standard cost or latest acquisition cost, is acceptable, per reference (d). However, when MAC is not used, the valuation methodology shall be identified as a comment to the report. Full accountability, MAC and NRV are defined in enclosure (7).

a. Physical Management Reporting:

(1) The CNO and the CMC shall certify accountability and control of their respective OM&S to the OASN(RD&A) by signing and submitting SECNAV Form 5200/5 no later than 45 days after the end of the second and fourth quarters of the fiscal year. The report shall summarize the subordinate reports of all OM&S owned by the respective Service, regardless of reporting or management system in use. Substantiating data for these reports shall originate with each organization that owns OM&S at any level and be consolidated through the PEO (if applicable), BSO and Service chains of command. OM&S that is financially reported as CIP or has been expensed and is still in government custody shall be included in this report with zero value. OM&S that is financially reported as CIP shall be carried on this

report until actually installed or consumed into the higher assembly. Substantiating data shall be retained as directed by Service policy and shall be made available upon request.

(a) The physical management report shall include all OM&S owned as of the end of the second and fourth quarters of the fiscal year respectively, for each report.

(b) Reporting entities at all levels of reporting shall utilize SECNAV Form 5200/5, available on line at <https://www.secnav.navy.mil/doni/default.aspx> for their submission. Negative responses are required.

(2) Required data elements include:

(a) Total number of organizations assigned to the reporting entity, total number of subordinate organizations that reported any amount of OM&S and the number of organizations submitting negative reports, e.g., own no OM&S. Note: This metric shall not be consolidated above the BSO level;

(b) Total number of line items, total quantity of items and total value of OM&S on hand segregated by reporting category (MHFU, MHFFU, MHFR, MEOU or OID) and OM&S segment (Ordnance, Uninstalled Aircraft Engines (UAE), Tridents and all other OM&S). OM&S that is expensed or financially reported as CIP, has not yet been installed or consumed into the end item and is still in government custody shall be included in this report with zero value until actually installed or consumed into the higher assembly. These categories are defined in enclosure (7);

(c) Inventory validity, sample size and number of line items sampled that matched the APSR record, segregated by reporting category and reporting segment;

(d) Total quantity of items and total value of OM&S categorized as MEOU held for more than 180 days. Either a disposal plan or justification for continuing to hold this material shall be developed and retained as directed by Service policy and shall be made available upon request;

(e) Consolidated list of all systems used to manage, track and account for OM&S. This list may include, but is not



limited to, APSRs, material tracking systems and local spreadsheets or databases;

(f) Total number of line items at the BSO level managed by more than one subordinate reporting entity;

(g) Overall inventory turnover rate for OM&S identified as MHFU for the preceding 24 months. Inventory turnover rate is calculated by dividing value of material issued or consumed by average inventory (beginning inventory plus ending inventory divided by 2). This metric shall be calculated as follows:

1. The value of MHFU reported 24 months or four reports prior shall be used as the beginning inventory.

2. The value of MHFU included on the current report shall be used as the ending inventory.

3. The total value of material consumed during the period during the 24-month rolling window represented by the beginning and ending balances above shall be used as the value of material issued or consumed.

4. Successive reports shall continue to use a rolling 24-month window to calculate beginning inventory, ending inventory and value of material issued or consumed.

b. Financial Reporting:

(1) All organizations that own OM&S shall maintain a process to provide financial information for inclusion in the DON financial statements. Through the designated financial reporting process, owners of OM&S shall report financial balances to the Defense Departmental Reporting System (DDRS) on a quarterly basis either via a direct system feed, the Data Collection Module (DCM) or a BSO Journal Voucher.

(2) OM&S balances shall be reported as:

(a) MHFU;

(b) MHFFU;

(c) MHFR;

(d) MEOU;

(e) OID

(3) For MEOU, owners shall report the difference between the value of the OM&S before identification as MEOU and the estimated NRV;

(4) To facilitate adequate disclosure in the DON financial statements, owners shall report:

(a) The general composition of the OM&S either as Ordnance, UAE, Tridents or Remainder (all other OM&S);

(b) Any changes to the methodology used to report OM&S balances. Significant changes warranting disclosure include, but are not limited to:

1. A change in the basis for determining OM&S values;

2. Changes from the prior year's accounting methods, e.g., Purchases Method of Accounting versus Consumption Method of Accounting;

3. New restrictions on the use of OM&S, changes in classification of OM&S, e.g., assets previously classified as MHFU now classified as MHFFU;

4. Any changes in the criteria used to identify the classification to which the OM&S is assigned;

5. Any changes in criteria defining material as OM&S, e.g., policy changes that add or remove significant blocks of material from OM&S accounting.

(5) All organizations that own OM&S shall derive a complete list of financially reportable, e.g. not expensed, OM&S under their purview quarterly. Although derived from the same source, this report is in addition to the semiannual physical management report required in paragraph 3.a of this enclosure.

(a) The lists shall be derived not later than the fifth working day after the end of the quarter and represent the totality of financially reportable, e.g. not expensed, OM&S under their purview on the last day of the quarter.

(b) The lists shall be maintained locally in either hardcopy or electronic format for not less than eight quarters to support audit requirements.

(c) The list derived with 30 September data shall be forwarded to OASN(FM&C) no later than the fifth working day after the end of the quarter. Lists derived with other than the 30 September data shall be retained locally per Service-level guidance and shall be provided to OASN(FM&C) when requested.

## GLOSSARY AND TERMS

1. Accountability. The obligation imposed by law, lawful order, or regulation, accepted by an organization or person for keeping accurate records, to ensure control of property, documents, or funds, with or without physical possession. The obligation, in this context, refers to the fiduciary duties, responsibilities, and obligations necessary for protecting the public interest. However, it does not necessarily impose personal liability upon an organization or person.
2. Accountable Property System of Record (APSRs). The government system used to manage and control accountable property records. A subset of existing organizational processes related to the life cycle management of property; the system that is integrated with the core financial system. The APSR may also control and manage accountability records. For the DON, APSRs are approved by the ASN(FM&C). Approved APSRs are designated for use at the Service level. A full list of data elements required for approval as an APSR is located in reference (q).
3. Accountable Records. Accountable records are the property records maintained in the APSR. All Operating Materials and Supplies (OM&S) must have an accountable record in the APSR. While accountable records may be established for multiple quantities of identical, non-serially managed items, serially managed OM&S requires unique records for each individual item. The following data elements are required for accountable records of OM&S: description or nomenclature, national or local stock number, unit of issue, quantity, value, unique identifier (if available, condition code, controlled item indicator code, receipt date, location Department of Defense Activity Address Code (DoDAAC), owning organization DoDAAC, accountable organization DoDAAC, and custodial organization DoDAAC.
4. Construction in Progress (CIP). CIP is a financial asset account that reflects costs incurred during construction of a new, undelivered end item (ship, aircraft, spacecraft, submarine, or land vehicle) or capital improvement of an existing end item. CIP includes all direct and indirect costs, including direct labor, direct material, direct purchased services, overhead or project costs incurred to bring the end item to a form and condition suitable for its intended use.

When the end item is accepted and placed in service, or the capital improvement is complete, these costs will be transferred to the GE asset account as the valuation of the end item. Because CIP and OM&S represent unique financial reporting treatments, material can be financially designated as one or the other, but never both, i.e., CIP is specifically excluded from financial reporting as OM&S and vice versa. Material that qualifies as OM&S that is held without specific designation or is designated for installation in existing end items as a repair, upgrade, or modification shall be classified and reported as OM&S. Undesignated OM&S material subsequently identified for installation in or construction of a new end item shall be transferred from the OM&S account into the CIP account.

Upon delivery of the end item, the value of material classified as CIP will be included in the total value of the end item. Material remaining in the CIP account following final delivery of the end item may be returned to the OM&S account if appropriate.

5. Consumed/Consumption. For purposes of identifying OM&S, the terms "consumed" or "consumption" refer to a financial state. An item of supply or material is considered to be consumed when it is used or installed in a next higher assembly such that it no longer has a unique financial value, e.g., the item's value is absorbed into the value of the next higher assembly, or it is issued into a Pre- Expended Bin status, or it is found missing during inventory. In the case of ordnance, material is also considered consumed when expended. Clothing is consumed when issued. "Consumption," as it is used to classify or account for OM&S, is irrespective of the physical durability or life-span of the item, and is in no way tied to the traditional material management concepts of "consumable" versus "repairable" items.

6. Consumption Method of Accounting. The cost of material shall be removed from the OM&S asset account, and reported as a program expense in the period it is issued to an end user for consumption in normal operations. For example, material received at a shipyard, fleet readiness center, or an organic research and development laboratory is not considered consumed until the item has been used or consumed in operations to refurbish or repair the vessel or aircraft. More detailed discussion of the Consumption Method of Accounting can be found in paragraphs 040102.D and 040201.A of reference (c).

7. Controlled Inventory Item Code (CIIC). CIIC represents a set of codes used to identify an item's security classification, sensitivity, and/or pilferage controls. CIICs are listed in table 61 of volume 10 of the Federal Logistics Information System Technical Procedures, available at <http://www.dla.mil/HQ/InformationOperations/Offers/Services/TrainingandReference/FLISProcedures.aspx>.

8. End Item. A final combination of end products, component parts, or materials that is ready for its intended use, e.g., ship, tank, mobile machine shop, aircraft, submarine, aircraft, space craft, land vehicle, "full-up-round" weapon, etc. End items are items to which there is no next higher assembly, e.g., items that do not get installed into another higher assembly.

9. End User. Any component of a reporting entity that obtains goods for direct use in the component's normal operations, e.g. workcenter or artisan. Any component of a reporting entity, including contractors, that maintains or stocks OM&S for future issuance shall not be considered an end user.

10. Foreign Military Sales (FMS). The FMS program is a form of security assistance authorized by the Arms Export Control Act as amended and a fundamental tool of U.S. foreign policy. For purposes of this policy, material acquired by the DON and destined for FMS shall be managed and accounted for as DON property until actual transfer to the FMS customer. Property that is provided to DON activities from FMS customers, normally for repair or upgrade, is considered property of the FMS customer and shall be managed as property in on loan with no impact to DON financial statements.

11. Full Accountability. Full accountability of OM&S requires that supporting documentation is maintained in sufficient detail to permit tracing balances from their source systems to amounts reported in financial statements. The supporting documentation shall demonstrate the inventory validity, existence, completeness, accuracy of physical and financial balances, valuation and rights of obligations including, but not limited to receipts, material on hand validations and documentation recording material condition.

12. Government Property. All property owned or leased by the Government. Government property includes both Government-

furnished and contractor-acquired property. More detailed discussions of Government Property and when title passes to the Government can be found in part 52.245-1 of reference (n) and subpart 252.211-7007 of reference (o).

13. Inventory Turnover Rate. A measure of the number of times OM&S on hand is used in a specific time period (for this instruction, a two-year period). The equation for inventory turnover equals the cost of goods used divided by the average inventory. A low turnover rate may point to overstocking. However, in some instances a low rate may be appropriate, such as where significant amounts of OM&S are held for risk mitigation against obsolescence or expected market shortages. Conversely a high turnover rate may indicate inadequate inventory levels, which often can result in stock shortages or impact operational readiness.

14. Inventory Validity. The value calculated by dividing the number of line items counted that match the accountable record during a physical inventory divided by the total number of line items in the sample. For OM&S, inventory validity shall be maintained at not less than 100 percent. The term is synonymous with inventory accuracy.

15. Item Unique Identification (IUID). A system of establishing globally unique identifiers within the DoD, which serves to distinguish discrete items from other like and unlike items. Full IUID capability requires items to be marked, automated information technology to read the marks, information systems to be modified to use the mark, and business processes to be re-engineered to utilize the capability.

16. Material Held as Excess, Obsolete, and Unserviceable (MEOU). "Excess OM&S" are OM&S stocks that exceed the amount expected to be used in normal operations because the amount on hand is more than can be used in the foreseeable future and that do not meet management's criteria to be held in reserve for future use. "Obsolete OM&S" are OM&S that are no longer needed due to changes in technology, laws, customs, or operations. "Unserviceable OM&S" are OM&S that are physically damaged and cannot be consumed in operations. Designation as Material Held as Excess, Obsolete, and Unserviceable indicates that the owner is ready to relinquish title to the property, either by transferring it to another organization for use, transferring it

to the Navy Working Capital Fund (NWCF) to become inventory held for sale, transfer or sale under a Foreign Military Sales agreement, or disposal.

17. Material Held for Repair or Remanufacture (MHFR). Materials and supplies that are not in usable condition, but can be economically repaired (supply condition codes F, G, M or R). The objective is to rebuild items as an alternative to procuring new items or use as a rotating source of supply. Once rebuilt, the items will be categorized as MHFU or Material Held in Reserve for Future Use as appropriate.

18. Material Held for Use (MHFU). OM&S in supply condition codes A, B, C, D or T that is procured or otherwise acquired with the intent to be consumed in normal operations within the next 24 months.

19. Material Held in Reserve for Future Use (MHFFU). OM&S stocks may be maintained because they are not readily available in the market or because there is more than a remote chance that they will eventually be needed, although not necessarily in the normal course of operations, or in excess of 24 months. Material designated as MHFFU will meet the criteria set forth in paragraph 46 of reference (d). Per table 4-2 of reference (c), MHFFU includes all material in supply condition codes E, J, K, L, and Q, as well as material in supply condition codes A through D and T that is above the approved acquisition objective and is retained for economic or contingency purposes.

20. Moving Average Cost (MAC). MAC is determined each time costs are incurred for a purchase or a reparable item is repaired or remanufactured. MAC is calculated by dividing the cost of total units available at the time (inventory plus current purchase or remanufacturing costs) by the number of total units available at that time. Values for all OM&S, except Material Held as Excess, Obsolete, and Unserviceable, shall be reported at MAC unless otherwise specified.

21. Net Realizable Value (NRV). DoD defines NRV as the estimated amount that can be recovered from selling or disposing of an item less the estimated costs of completion, holding, and disposal. The value of OM&S held as MEOU shall be reported at NRV.



22. Operating Materials and Supplies (OM&S). DoD defines OM&S as tangible personal property to be consumed in normal operations. DON OM&S is comprised of material such as replacement parts, components, assemblies, and residual assets that are to be consumed in normal operations, but are not held for sale. OM&S shall be categorized as Material Held for Use (MHFU), Material Held in Reserve for Future Use (MHFFU), Material Held for Repair or Remanufacture (MHFR), Material Held as Excess, Obsolete and Unserviceable (MEOU) or OM&S In Development (OID).

a. Examples of OM&S include, but are not limited to:

(1) Spare and repair parts and materials that are not part of the NWCF inventory held for sale;

(2) Ordnance as defined in this instruction;

(3) Uninstalled Aircraft Engines and other centrally managed material (non NWCF inventory) regardless of material condition;

(4) Spare attachments to end items (when not attached) that are interchangeable with other parts and are not stand alone end items, e.g., bulldozer blades, towed sonar arrays, servers, routers or other commercial off-the-shelf information technology material.

(5) Items removed from decommissioned and/or cannibalized vessels, or aircraft or components that are required to support future operating force requirements (non NWCF inventory);

(6) Material procured using DON funds that is held as or in production for or held in anticipation of a pending or planned sale to Foreign Military Sales;

(7) Clothing, uniforms and organizational clothing.

b. Excluded are:

(1) Goods acquired for use in constructing real property or in assembling equipment to be used by the entity;

- (2) Stockpile materials;
- (3) Goods held under price stabilization programs;
- (4) Foreclosed property;
- (5) Seized and forfeited property;
- (6) Inventory held for sale;
- (7) General Plant Property & Equipment (PP&E);
- (8) Construction-in-Progress material
- (9) Bulk fuel.

Note: The term OM&S is distinct and separate from the Accounting Object Class 260 title "Supplies and Materials."

23. OM&S In Development (OID). A financial asset account that reflects costs incurred during development of OM&S that will be consumed in normal operations upon completion of development. OID includes all direct and indirect costs, including direct labor, direct material, direct purchased services, overhead or project costs incurred to bring the OM&S to a form and condition suitable for its intended use. Upon completion of development, these costs will be transferred to either the MHFU or MHFFU accounts as appropriate. Note: OID shall not be used to accrue costs of OM&S constructed specifically for consumption in a new end item or in a capital improvement of an end item, as these costs are categorized as Construction in Progress.

24. Ordnance. Explosives, chemicals, pyrotechnics and similar stores, e.g., bombs, ammunition, flares, smoke or napalm. Ordnance also includes full-up-rounds and components of missiles, torpedoes and expendable rockets. For the purposes of this instruction, ordnance and related material that is managed in the Ordnance Information System.

25. Owner. The command and/or activity that has title to the OM&S. The owner also has reporting responsibility to financial statements and disposition authority. Custodians should report back to the owning activity before disposing an asset.

26. Production. Material and supplies, excluding Ordnance and Uninstalled Aircraft Engines, consumed during normal business operations to produce next higher assemblies to meet specific requirements. This includes, but is not limited to, shop supplies, raw materials, parts, components, and finished products not yet delivered.

27. Purchases Method of Accounting. The Purchases Method of Accounting provides that OM&S be expensed when purchased. OM&S that has been expensed under the Purchases Method of Accounting must still be accounted for and physically managed and reported, per the requirements of this instruction. Entities shall have a methodology to support making this decision.

a. A waiver may be requested from DASN (FO) to use the Purchases Method of Accounting for OM&S instead of the Consumption Method of Accounting if OM&S:

(1) are not significant amounts,

(2) are in the hands of the end user for use in normal operations,

(3) or it is not cost-beneficial to apply the Consumption Method of Accounting.

b. Authorization to utilize the Purchases Method of Accounting must be granted in writing by DASN (FO) as described in enclosure (4). More detailed discussion of the Purchases Method of Accounting can be found in paragraphs 040102.S and 040201.B of reference (c).

28. Spares. Material, excluding Ordnance and Uninstalled Aircraft Engines, purchased to fulfill a specific or modeled requirement, e.g., through the Baseline Assessment Memorandum or Stratification process, held specifically to replace failed like items during normal operations or installations, but not held for sale. Includes, but is not limited to, On Board Repair Parts, Interim Supply Support spares, Installation and Check-Out spares, Maintenance Assistance Modules, depot spares, and rotatable pool items.

29. Serially Managed Item. An item designated by DoD or the DON to be uniquely tracked, controlled or managed in

maintenance, repair and/or supply systems by means of its serial number or other globally unique identifier.

30. Title. For the purposes of this instruction, "title" refers to all rights that can be secured and enjoyed under the law. It is frequently synonymous with absolute ownership. Title to property ordinarily signifies that the holder has full and absolute ownership.

31. Uninstalled Aircraft Engines (UAE). Centrally managed aircraft engines not currently installed in airframes, regardless of material condition.

**LIST OF ACRONYMS**

ACRONYM	DEFINITION
APSR	Accountable Property System of Record
BSO	Budget Submitting Office
CIIC	Controlled Inventory Item Code
CIP	Construction In Progress
CMC	Commandant of the Marine Corps
CNO	Chief of Naval Operations
DASN	Deputy Assistant Secretary of the Navy
DASN(ELM)	Deputy Assistant Secretary of the Navy, Expeditionary Programs and Logistics Management
DASN(FO)	Deputy Assistant Secretary of the Navy, Financial Operations
DCM	Data Collection Module
DDRS	Defense Departmental Reporting System
DoD	Department of Defense
DON	Department of the Navy
DRPM	Direct Reporting Program Manager
FO	Flag Officer
GFM	Government Furnished Material
GO	General Officer
IUID	Item Unique Identification
MAC	Moving Average Cost
MEOU	Material Held as Excess, Obsolete and Unserviceable
MHFFU	Material Held in Reserve for Future Use
MHFR	Material Held for Repair or Remanufacture
MHFU	Material Held for Use
NRV	Net Realizable Value
NWCF	Navy Working Capital Fund
OASN(FM&C)	Office of the Assistant Secretary of the Navy (Financial Management and Comptroller)
OASN(RD&A)	Office of the Assistant Secretary of the Navy (Research, Development and Acquisition)
OID	OM&S In Development
OM&S	Operating Materials and Supplies
PEO	Program Executive Officer
PP&E	Plant Property and Equipment
SECNAV	Secretary of the Navy
SES	Senior Executive Service
SYSCOM	Systems Command